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DOMAN INDUSTRIES LIMITED

ANNUAL REPORT 1966



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DOMAN INDUSTRIES LIMITED

HEAD OFFICE: 2739 JAMES ST., DUNCAN, B.C.

DIRECTORS

H. S. DOMAN, President, Doman Industries, Duncan, B.C.
JOHN W. CHAMBERS, Accountant, Victoria, B.C.
IAN C. DANVERS, Director, Pemberton Securities Limited, Kelowna, B.C.
JOHN C. DAVIE, Barrister & Solicitor, Williams & Davie, Duncan, B.C.
G. S. DOMAN, Executive, Doman Industries, Duncan, B.C.
D. S. DOMAN, Executive, Doman Industries, Victoria, B.C.
GORDON B. ELWORTHY, Director, Island Tug & Barge, Victoria, B.C.

OFFICERS

H. S. DOMAN, President
JOHN C. DAVIE, Secretary

REGISTRAR & TRANSFER AGENT

ROYAL TRUST COMPANY, Vancouver, B.C.

BANKERS

THE ROYAL BANK OF CANADA

SOLICITORS

WILLIAMS & DAVIE, Duncan, B.C.

AUDITORS

ROBERTS, DENSON, HILL & CO., Victoria, B.C.

FINANCIAL HIGHLIGHTS

	1966	1965
Sales.....	\$7,011,818	\$5,981,820
Profit Before Income Taxes.....	374,560	438,169
Income Taxes — Current.....	131,415	77,198
— Deferred.....	53,000	124,300
Net Earnings.....	190,145	236,671
Preferred Dividends.....	37,050	27,788
Net Earnings Available for Common Shares.....	153,095	208,883
Per Common Share.....	.43	.58
Earnings Per Common Share Exclusive of Profit on Sale of Fixed Assets.....	.41	.34
Cash Flow Per Common Share (after preferred dividends).....	1.38	1.33

REPORT OF THE PRESIDENT

Your Company has now completed its second year as a public company. While in many respects it was a difficult year, much has been accomplished.

FINANCIAL

You will note from the Financial Statements that sales for 1966 reached an all time high of \$7,000,000.

Your directors have adopted a more conservative method of reporting income and last year's figures have been adjusted to reflect these changes in accounting procedure. On the adjusted basis earnings per common share (exclusive of profit on the sale of fixed assets) increased from 34¢ last year to 41¢ for the year under review.

The improvement in earnings is encouraging in view of the many increased costs absorbed by your Company during the year.

Funds for investment in Ladysmith Forest Products (to which reference is made later in this report) were acquired through the sale of an additional 40,000 shares 6½% convertible preferred which also carried share purchase warrants. Negotiations are being carried on at this time for a long term loan which will be used for general corporate purposes.

BUILDING SUPPLIES

Although sales improved throughout the division the increase was not up to expectations due to lack of mortgage funds and the lengthy carpen-

ters' strike which affected the entire construction industry. Because of the tight money situation we imposed severe credit restrictions, which although affecting sales, resulted in minimum credit losses.

Plans to construct our largest building supply outlet in Surrey have been postponed for the present but will be reviewed again when credit restrictions ease.

LOGGING AND MANUFACTURING

Logging of your Company's timber was carried on for part of the year but was discontinued in the fall when log prices declined substantially. Your management considered it prudent at that time to conserve the Company's timber and to purchase logs on the open market. Inventories were increased to take advantage of depressed lumber prices.

LADYSMITH FOREST PRODUCTS

Doman Industries owns 70% of the issued capital of the above Company which is a joint venture with T. W. MacKenzie Logging and Pacific Logging, a subsidiary of Canadian Pacific Railway. It is expected that the new mill, costing just under \$1,000,000, will go into operation at Ladysmith early in the spring.

The mill, located on tidewater property leased from Pacific Logging, is designed primarily to cut small logs. This modern plant will benefit from the lower prices of peewee logs while operating with a labour force approximately 40% less than conventional sawmills. Featuring a quadruple

bandsaw headrig, the plant is expected to cut two hundred thousand feet of lumber per day, on a two-shift basis, or fifty million board feet per year. As a producer of rough cut lumber, the new mill will cater principally to foreign and world-wide markets, leaving Nanoose Forest Products' mills free to supply local yard requirements.

TRANSPORTATION

In the transportation field, rising labour costs posed difficult problems throughout the year. Despite a natural reluctance to increase tariffs Doman's Transport and Doman-Marpole Transport found it necessary to make modest adjustments to rates as the year progressed. Volume in the transportation subsidiaries showed a steady increase and contributed significantly to the rise in sales.

OUTLOOK

It is expected that 1967 will be a year of consolidation and your directors have no plans for

further expansion. If the present trend to easier credit continues we expect a very satisfactory year. Your directors have periodically considered the initiation of dividends on the common shares but did not feel it prudent at this time due to the demands on your Company's financial resources. However, this matter will be considered again later in the year.

The year under review was in many respects a difficult year, requiring outstanding effort from our employees, to all of whom we wish to extend our sincere thanks and appreciation. We further wish to thank our customers, suppliers and shareholders, and look forward to their continued support during 1967.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "H. L. Doman".

Duncan, B.C.
February 1, 1967.

President.

CONSOLIDATED BALANCE SHEET

(With Comparative Figures for 1965)

ASSETS

	1966	1965
CURRENT ASSETS		
Cash on hand	\$ 2,065	\$ 57,794
Marketable securities (at market)	20,000	60,000
Accounts receivable, less allowance for doubtful accounts of \$93,565 (1965 - \$71,496)	1,081,209	989,193
Due from affiliated companies	117,016	43,770
Inventories - at lower of cost or market	1,176,563	813,702
Prepaid expenses	29,110	21,075
Principal portion of mortgage receivable	15,000	—
	<u>\$2,440,963</u>	<u>\$1,985,534</u>
SPECIAL REFUNDABLE TAX	<u>\$ 8,195</u>	
MORTGAGE RECEIVABLE - due \$15,000 January 1, 1967 and \$15,000 January 1, 1968 plus interest at 6%	<u>\$ 30,000</u>	
Less: Principal portion due within one year	<u>15,000</u>	
	<u>\$ 15,000</u>	
INVESTMENT AND ADVANCES IN LADYSMITH FOREST PRODUCTS LIMITED (Note 6)		
Shares	\$ 70	
Advances	105,000	
	<u>\$ 105,070</u>	
TIMBER HOLDINGS AND LOGGING ROADS - at cost less amounts written off	<u>\$ 200,585</u>	<u>\$ 260,718</u>
PROPERTY, PLANT AND EQUIPMENT - at cost (Note 1)		
Land	\$ 139,445	\$ 127,895
Buildings	397,375	310,696
Equipment	1,467,969	1,245,231
	<u>\$2,004,789</u>	<u>\$1,683,822</u>
Less: Accumulated depreciation	<u>520,078</u>	<u>361,557</u>
	<u>\$1,484,711</u>	<u>\$1,322,265</u>
OTHER ASSETS		
Deposits, cash surrender value of life insurance and sundry investments	\$ 34,798	\$ 42,624
Freight licences (Note 1)	15,000	—
Financing costs	—	68,795
	<u>\$ 49,798</u>	<u>\$ 111,419</u>
EXCESS OF PURCHASE PRICE OF SHARES IN SUBSIDIARY COMPANIES OVER THE NET BOOK VALUE AT TIME OF ACQUISITION (Note 1)	<u>\$ 188,346</u>	<u>\$ 188,346</u>
	<u>\$4,492,668</u>	<u>\$3,868,282</u>

The accompanying notes are an

part of the financial statements.

DOMAN INDUSTRIES LIMITED
and its subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 1966

(With Comparative Figures For The Year Ended October 31, 1965)

	1966	1965 (Note 8)
BALANCE, beginning of year.....	\$768,768	\$ 618,285
Add: Profit for the year.....	190,145	236,671
	<u>\$ 958,913</u>	<u>\$ 854,956</u>
Less: Dividends on preferred shares.....	\$ 37,050	\$ 27,788
Transferred to deferred income taxes.....	—	58,400
Financing costs written off.....	68,795	—
	<u>\$ 105,845</u>	<u>\$ 86,188</u>
BALANCE, end of year.....	<u>\$ 853,068</u>	<u>\$ 768,768</u>

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED OCTOBER 31, 1966

(With Comparative Figures For The Year Ended October 31, 1965)

	1966	1965 (Note 8)
SALES.....	<u>\$7,011,818</u>	<u>\$5,981,820</u>
PROFIT FROM OPERATIONS before the following items.....	<u>\$ 747,639</u>	<u>\$ 545,420</u>
Depreciation.....	\$ 172,199	\$ 104,000
Depletion and amortization.....	115,453	38,475
Interest.....	91,593	51,532
	<u>\$ 379,245</u>	<u>\$ 194,007</u>
	\$ 368,394	\$ 351,413
Add: Profit on sale of fixed assets.....	6,166	86,756
PROFIT BEFORE INCOME TAXES.....	<u>\$ 374,560</u>	<u>\$ 438,169</u>
INCOME TAXES — current.....	\$ 131,415	\$ 77,198
— deferred.....	53,000	124,300
	<u>\$ 184,415</u>	<u>\$ 201,498</u>
NET INCOME FOR THE YEAR.....	<u>\$ 190,145</u>	<u>\$ 236,671</u>

DOMAN INDUSTRIES LIMITED
and its subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED OCTOBER 31, 1966

(With Comparative Figures For The Year Ended October 31, 1965)

	1966	1965
FUNDS PROVIDED FROM:		
Operations – profit for the year.....	\$ 190,145	\$ 236,671
Add: Charges to operations not representing a current outlay of funds —		
Depreciation.....	172,199	104,000
Depletion.....	115,453	38,475
Deferred income taxes.....	53,000	124,300
	<u>\$ 530,797</u>	<u>\$ 503,446</u>
Sale of shares.....	—	855,000
Less: Financing cost applicable thereon.....	—	(68,795)
Sale of equipment and timber holdings.....	50,154	216,405
Less: Profit thereon included in profit for the year.....	(6,166)	(86,756)
Increase in long term debt.....	—	423,484
	<u>\$ 574,785</u>	<u>\$1,842,784</u>
 FUNDS APPLIED TO:		
Payment of preferred dividends.....	\$ 37,050	\$ 27,788
Reduction of long term debt.....	182,207	—
Purchase of equipment and timber holdings.....	433,953	1,283,458
Excess of purchase price of shares in subsidiary companies over their net book value at time of acquisition.....	—	188,346
Investment in shares and advances of Ladysmith Forest Products Limited.....	105,070	—
Investment in mortgage receivable.....	15,000	—
Special refundable tax.....	8,195	—
Increase in deposits and sundry investments.....	7,174	27,074
	<u>\$ 788,649</u>	<u>\$1,526,666</u>
 Increase/(Decrease) In Working Capital.....	(\$ 213,864)	\$ 316,118
Working capital, beginning of year.....	561,303	245,185
 Working capital, end of year.....	<u>\$ 347,439</u>	<u>\$ 561,303</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 1966

Note 1 — Principles of Consolidation

The consolidation includes the accounts of the company's subsidiaries, Doman's Transport Limited, Doman's Freightways Ltd., Doman Distributors Ltd., Doman-Marpole Transport Limited, Armour & Saunders Limited and Nanoose Forest Products Limited. The accounts of Ladysmith Forest Products Limited, a 70% owned subsidiary, have not been consolidated. This company was incorporated June 3, 1966 and is constructing a sawmill which is not expected to commence operations until March 31, 1967.

The excess of the purchase price of the shares of Doman-Marpole Transport Limited and Armour & Saunders Limited over the book value of the net assets acquired amounted to \$188,346. This is shown as a separate item on the balance sheet. In 1965 this amount was allocated to the cost of fixed assets and freight licences.

Note 2 — Share Capital

By special resolution dated September 6, 1966, the authorized share capital of the company was increased to 117,000 6½% cumulative redeemable preferred shares Series A of \$10.00 par value and 1,000,000 common shares without nominal or par value.

Of the unissued common shares, 76,000 are reserved for the conversion of the 57,000 Series A preferred shares. As at October 31, 1966 no preferred shares had been converted.

Note 3 — Income Taxes

The company has followed the practice of claiming capital cost allowances for income tax purposes in excess of depreciation recorded in the accounts. This has in the past resulted in a lower provision for income taxes, as current operations were not charged with income taxes which may become payable in the future if available capital cost allowances are less than the recorded depreciation. This year the company changed its policy and has recorded, as deferred income taxes, the amount by which income taxes have been reduced by such accounting treatment. The amount applicable to prior years has been charged to retained earnings.

Note 4 — Directors' Fees

The salaries and directors' fees of the executive officers and directors amounted to \$74,615.

Note 5 — Long Term Debt

Details of the long term debt are as follows:

	Principal Portion Due Within One Year	Balance October 31, 1966
Royal Bank of Canada — payable monthly with interest at 6% per annum.....	\$ 96,000	\$ 138,000
Industrial Development Bank — payable monthly with interest at 7% per annum.....	49,980	58,310
Equipment contracts payable monthly at various rates of interest.....	94,151	360,942
Mortgages and agreements payable monthly at various rates of interest.....	39,026	100,305
Shareholders and other loans — 6% — due October 1, 1968	—	75,726
	<u>\$ 279,157</u>	<u>\$ 733,283</u>

Note 6 — Commitments

In accordance with terms of a contract dated June 30, 1966 between Ladysmith Forest Products Limited (a 70% owned subsidiary) and Doman Industries Limited and other parties, the company is committed to purchase 7% secured notes of Ladysmith Forest Products Limited in the amount of \$455,000. As at October 31, 1966 \$105,000 has been advanced but secured notes have not, at this date, been issued.

The sawmill being constructed by Ladysmith Forest Products Limited is estimated to cost \$1,000,000 and it is anticipated that it will be financed by the sale of the aforementioned secured notes together with the proceeds from commercial finance contracts or additional advances by the shareholders.

Note 7 — Subsequent Events

On January 3, 1967 the company issued an additional 40,000 6½% cumulative redeemable convertible preferred shares Series A. This issue has netted the company approximately \$355,000 after payment of commissions and expenses related to the issue.

Note 8 — Restatement of 1965 Financial Statements

The comparative figures for 1965 have been restated to reflect the changes in the accounting treatment of income taxes as outlined in Note 3.

**AUDITOR'S
REPORT**

To the Shareholders of
DOMAN INDUSTRIES LIMITED:

We have examined the consolidated balance sheet of Doman Industries Limited and its subsidiary companies as at October 31, 1966 and the consolidated statements of income, retained earnings, and source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet, the consolidated statements of income, retained earnings and source and application of funds, when read in conjunction with the notes appended thereto, are properly drawn up so as to present fairly the financial position of the company and its subsidiaries and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes with respect to income taxes applicable to future years (notes 3 and 8), with which we concur.

ROBERTS, DENSON, HILL & CO.,
Chartered Accountants.

Victoria, B.C.
January 26, 1967.

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DAMAN INDUSTRIES LIMITED

and Subsidiary Companies

**REPORT
TO THE
SHAREHOLDERS
FOR THE
SIX MONTHS
ENDED
APRIL 30
1966**

DOMAN INDUSTRIES LIMITED

and Subsidiary Companies

STATEMENT OF CONSOLIDATED INCOME

	Six Months to April 30th 1966	Six Months to April 30th 1965
SALES	\$3,022,783	\$2,508,074
Income from operations before depreciation, depletion, interest and income taxes		\$258,350
Depreciation	\$ 77,503	\$ 50,683
Depletion	33,561	10,175
Interest	34,170	16,546
	145,234	77,404
Provision for Income taxes	\$221,027	\$180,946
	55,000	60,000
NET INCOME FOR SIX MONTHS	\$166,027	\$120,946
Preferred Dividend Paid	18,525	9,263
Net income available for common shareholders	\$147,502	\$111,683
Common shares outstanding	357,000	357,000
Earnings per common share	\$.41	\$.31

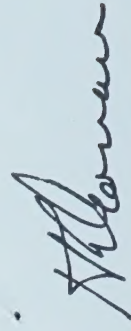
TO THE SHAREHOLDERS:

We take pleasure in reporting to you that the available net earnings of the company, after allowing for the payment of dividends to preferred shareholders, amounted to 41c per share for the first six months of our present fiscal year, as compared to 31c per share in the first six months of the previous year. This represents an increase very nearly equal to one-third, and confirms our belief in the economic advantages of a closely integrated group of subsidiaries which convert wood products from the stump to the home.

We look forward with great anticipation to our continuing association with Canadian Pacific's subsidiary, Pacific Logging Company Limited. At Ladysmith, B.C. the site for a modern sawmill has now been cleared and prepared on Pacific Logging Company Limited property. The mill will be constructed and operated by Ladysmith Forest Products Limited, in which Doman Industries Limited holds a substantial share interest.

In both the building supplies and truck transportation fields the prospects for the balance of the year appear to be good.

On behalf of the Board,



H. S. DOMAN
Chairman.

Duncan, B.C.
June 7, 1966.